THE CITY OF SAN DIEGO

MANAGER'S REPORT

DATE ISSUED: May 3, 2001 REPORT NO. 01-086

ATTENTION: Rules, Finance and Intergovernmental Relations Committee
Agenda of May 9, 2001

SUBJECT: Energy Conservation and Management Issues

REFERENCE: Manager-s Report No.01-062, dated March 29, 2001

SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

BACKGROUND

At the Rules Committee meeting of April 4, 2001, Angelina Galiteva, Executive Director for Strategic Planning for the Los Angeles Department of Water and Power (DWP), gave a presentation on the Customer Choice Environmental Initiatives offered by DWP. After the presentation, several questions were raised regarding the potential for San Diego to receive service from DWP, as well as the types of programs offered to Los Angeles residents by the DWP and their applicability to the City of San Diego.

Additional information was also requested regarding the cost and feasibility of repowering the Silver Gate Power Plant. This report responds to those requests for additional information.

DISCUSSION

Municipal Utility District

At the April 4, 2001 Rules Committee meeting, Mayor Murphy asked if it were possible for the City of San Diego to somehow associate with DWP and thereby achieve the benefits of a Municipal Utility District (MUD). In a meeting on April 16, 2001, DWP-s general manager, David Freeman, stated that DWP does not currently generate enough excess power to serve San Diego's needs, however, there might be other ways for the two entities to work together in the area of energy conservation and management.

Ms. Galiteva suggested that San Diego may want to participate with DWP in on-going Request for Proposals (RFP's) for the purchase and distribution of solar water heaters to supplement residential hot water generation. Environmental Services Department staff are currently evaluating this proposal. Mr. Freeman thought it best that more substantial cooperation be deferred until the new mayor of Los Angeles is elected and is able to meet with Mayor Murphy.

Los Angeles DWP

As a municipal utility, Los Angeles DWP is mandated to collect a usage based "Public Goods Charge@ (2.85%), and has the authority, under AB 1890, to decide how the money will be used within its jurisdiction and is therefore able to provide significant energy conservation and management programs for its customers. The capability to determine the use of public goods monies enables DWP to focus resources in areas best aligned with its overall mission. DWP=s public goods programs are strategically structured to allow them to maintain a progressive image, while serving as a catalyst for new technology, provide a financing mechanism for energy efficiency and assist low-income and Lifeline customers.

These programs are coordinated and administered by the DWP=s Strategic Planning Organization (SPO), created in 1998 to unite all existing environmental activities and related programs. The five year Public Goods Charge Program budget for DWP is:

DWP Program	5-Year Budget
Low-income & Lifeline Subsidy	$127,000,000
Solar Energy	$ 71,572,000
Energy Efficiency	$ 30,032,000
Electric Vehicles	$ 23,627,000
Tree Planting	$ 21,336,000
Marketing	$ 16,359,000
Community Projects	$ 5,657,000
	$295,583,000

City of San Diego and Public Goods Charge Programs

Because the City of San Diego is not a municipal utility district, it does not have control of the public goods monies generated within its jurisdiction. AB 1890 requires that specific public goods programs be funded through a 3% revenue based charge investor-owned utilities are required to collect. These monies fund state-mandated programs for low-income assistance, energy efficiency and renewable energy development.

The following table identifies the general breakdown of expenditures for electric Public Goods Charge Programs on a statewide basis:

% of Revenue	Purpose	Administrator
0.4%	Public purpose related R&D	CEC
0.8%	Renewable energy	CEC
0.5%	Low-income programs	SDG&E via CPUC
1.3%	Energy efficiency	SDG&E (programs approved by CPUC)

Public purpose related research and development and the renewable energy monies are administered as statewide programs by the CEC. It is a complex undertaking to identify how the CEC manages the budgets for these Public Goods Charge Programs and how the monies are distributed throughout the State. ESD staff is continuing to research the availability of these funds and if San Diego ratepayers receive an equitable distribution. Additional information will be provided in a subsequent report.

Low-income assistance and energy efficiency programs are administered by SDG&E and budgeted on a service area wide rather than jurisdictional basis. The low-income assistance program is budgeted at $8.5 million in CY 2001 and consists of the California Alternate Rates for Energy (CARE) program, which offers a 15% discount on energy bills for people meeting minimum guidelines, and a free weatherization and conservation measures program. In the energy efficiency program, people who own or rent their home and meet income guidelines can have energy conservation measures installed at no cost. Measures offered include: ceiling insulation, caulking, weather stripping, compact fluorescent light bulbs and energy-efficient porch light fixtures. Also included are low-flow showerheads, water heater blankets, refrigerator replacement, gas furnace inspections and repairs, and minor structural repairs. The program is budgeted at $49 million for CY 2001, of which $12 million is carryover from the preceding year. SDG&E is working with the State to identify additional funding which could bring this total to $70 million.

Silver Gate Power Plant

The Silver Gate Power Plant was constructed in 1943 to meet the growth in demand for energy in San Diego as a result of World War II caused increases in population and industrial activity. The plant consists of four units that generated a maximum of 230 (MW) of energy (Unit 1, 40 MW installed in 1943, Unit 2, 62 MW installed in 1948, Unit 3, 64 MW installed in 1950 and Unit 4, 64 MW installed in 1952). The plant completed its useful life and was decommissioned in1984 when the South Bay Power Plant and Encino Power Plant came on line. The plant was fully decommissioned, as compared to “mothballed” with the intent of bringing the plant back to an operating condition at a future date for minimum cost. Therefore, recommissioning the plant using the existing in-place equipment would not be a viable or economic option.

The Los Angeles Department of Water and Power is currently considering repowering its four oldest large gas powered generating facilities, ranging in age from 36 years to 46 years old, to create 3274 MW of net dependable capability. The cost of the repowering project is estimated at $1.6 billion and the cost of electricity from the repowered units is estimated at 3.5 cents per kWh. Obviously, repowering the Silver Gate Plant at the 250 MW level would be significantly less then the Los Angeles project, but would still be a several hundred million dollar commitment. By utilizing existing infrastructure such as the water and gas delivery system, switch gear and substations, etc., repowering the Silver Gate plant would be more cost effective than constructing new generating capacity at a new location.

Staff has discussed potential scopes of work with SAIC to examine the issues related to public acquisition of the facility and what would be involved in repowering the facility. According to SAIC, an initial study to develop information for Council consideration of the merits of proceeding further with the acquisition and partnering with a private sector developer would cost approximately $15,000. A second phase study, which would be a more detailed review to quantify the costs, benefits and site specific issues associated with proceeding with such a project, would cost approximately $150,000.

An alternative role for the City, without the need for expensive studies using City funds, would be to facilitate discussions with Sempra an potential private developers to bring the site to the market and to support its sale or lease for repowering before the California Public Utilities Commission, who recently vetoed the sale by PG&E of a similar decommissioned power plant. Further, the City could act as an aggregator of public sector energy loads and negotiate a long term direct access purchase of power at favorable rates from the repowered facility as an incentive for developers.

CONCLUSION

ESD staff will continue discussions with Los Angeles DWP regarding potential partnerships and coordinating a meeting between both cities' mayors to discuss opportunities for cooperation and mutual benefit. Subsequent reports will provide additional information on State administered Public Goods Charge Programs and Silver Gate Power Plant repowering feasibility options.

Respectfully submitted,

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LOVELAND/EPLER/JW